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LASERS
LOUISIANA STATE EMPLOYEES'
RETIREMENT SYSTEM
COMPONENT UNIT FINANCIAL REPORT
JUNE 30, 2013

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date OCT 30 2013

TABLE OF CONTENTS

| | Page |
|--|------|
| Independent Auditor's Reports | |
| Report on Financial Statements | 1 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 4 |
| Management's Discussion and Analysis | 6 |
| Basic Financial Statements | |
| Statements of Plan Net Position | 12 |
| Statements of Changes in Plan Net Position | 13 |
| Notes to Financial Statements | 14 |
| Required Supplementary Information | |
| Schedules of Funding Progress for LASERS | 47 |
| Schedules of Employer Contributions | 47 |
| Schedules of Funding Progress for OGB OPEB Trust | 48 |
| Supporting Schedules | |
| Schedules of Administrative Expenses | 51 |
| Schedules of Investment Expenses | 52 |
| Schedules of Board Compensation | 53 |
| Schedules of Professional/Consultant Fees | 54 |



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INDEPENDENT AUDITOR'S REPORT

September 23, 2013

To the Board of Trustees
Louisiana State Employees' Retirement System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana State Employees' Retirement System, a component unit of the State of Louisiana, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Louisiana State Employees' Retirement System's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Louisiana State Employees' Retirement System, as of June 30, 2013, and 2012 and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisiana State Employees' Retirement System's basic financial statements. The supporting schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of the Louisiana State Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Louisiana State Employees' Retirement System's internal control over financial reporting and compliance.

Duplantier, Hrapmann, Hogan & Maher, LLP

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 23, 2013

To the Board of Trustees
Louisiana State Employees' Retirement System
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Louisiana State Employees' Retirement System, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Louisiana State Employees' Retirement System's basic financial statements, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Louisiana State Employees' Retirement System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana State Employees' Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Louisiana State Employees' Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana State Employees' Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Louisiana State Employees' Retirement System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisiana State Employees' Retirement System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Duplantier, Hrapmann, Hogan & Maher, LLP

Management's Discussion and Analysis

The following is management's discussion and analysis of the financial performance of the Louisiana State Employees' Retirement System (LASERS or the System). This narrative overview and analysis helps to interpret the key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the current year. Readers are encouraged to consider the information presented here in conjunction with additional information provided in the Transmittal Letter of LASERS Comprehensive Annual Financial Report (CAFR).

Financial Highlights

- Net position restricted for pensions increased by \$811.8 million, or 8.5%
- The actuarial rate of return on the market value of the System's investments was 14.1% for 2013 compared to 5.2% for 2012
- Net investment income experienced a gain of \$1.1 billion for 2013 compared to a \$9.6 million loss for 2012
- The System's funded ratio increased from 55.9% at June 30, 2012, to 60.2% as of June 30, 2013
- The unfunded actuarial accrued liability decreased \$698.6 million to \$6.4 billion as of June 30, 2013
- Total contributions decreased by \$7.7 million or 0.9% from 2012 to \$822.4 million in 2013
- Benefit payments increased by \$91.4 million or 9.3% to \$1.1 billion in 2013
- Refund and transfer payments of member contributions increased by \$18.3 million or 42.3% to \$61.5 million in 2013

Overview of the Financial Statements

The System's basic financial statements include the following: (1) statements of plan net position, (2) statements of changes in plan net position, (3) notes to the financial statements, and (4) required supplementary information.

The Statements of Plan Net Position report the System's assets, liabilities, and resultant net position restricted for pensions. They disclose the financial position of the System as of June 30, 2013, and 2012, respectively.

The Statements of Changes in Plan Net Position report the results of the System's operations during years 2013 and 2012, disclosing the additions to and deductions from the plan net position. They support the change that has occurred to the prior year's net position on the statement of plan net position.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements

- Note A provides a general description of LASERS, information regarding reserves, funding status, actuarial assumptions, employer and membership participation, eligibility, and benefits
- Note B provides a summary of significant accounting policies and plan position matters including the basis of accounting, securities lending, estimates, methods used to value investments, property and equipment, and accumulated leave
- Note C provides information regarding member and employer contribution requirements
- Note D describes LASERS deposits and investment risk disclosures which include custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk
- Note E describes the System's cash and investments, and includes information regarding bank balances, derivatives, real estate, and alternative investments
- Note F provides information regarding securities lending transactions
- Note G provides information on other postemployment benefits
- Note H provides information on subsequent events

Required Supplementary Information provides additional information and detail concerning LASERS progress in funding its pension obligations and other post employment benefits, the history of employer contributions, and schedules of trend data

The **Supporting Schedules** section includes the schedules of administrative expenses, investment expenses, Board compensation, and payments to consultants

Financial Analysis

LASERS financial position is measured in several ways. One way is to determine the plan net position (difference between total assets and total liabilities) available to pay benefits. Over time, increases and decreases in the LASERS plan net position indicates whether its financial health is improving or deteriorating. Other factors, such as financial market conditions, should also be taken into consideration when measuring LASERS overall health.

The following table illustrates a condensed version of LASERS Statements of Plan Net Position for fiscal years ending 2013, 2012, and 2011. LASERS plan net position as of June 30, 2013, and 2012, totaled \$10,327,598,351 and \$9,515,774,342, respectively. All of the plan net position is available to meet LASERS ongoing obligations to members, retirees, and beneficiaries.

Condensed Comparative Statements of Plan Net Position

| | 2013 | 2012 | 2011 |
|---|------------------------------|-----------------------------|-----------------------------|
| Cash and Cash Equivalents | \$ 62,005,498 | \$ 76,484,826 | \$ 43,568,574 |
| Receivables | 106,101,183 | 202,859,767 | 121,131,973 |
| Investments | 10,228,944,629 | 9,299,615,012 | 9,619,706,708 |
| Securities Lending Cash Collateral Held | 963,415,924 | 921,932,039 | 794,161,316 |
| Capital Assets | 6,373,829 | 8,106,259 | 9,872,111 |
| Total Assets | \$ 11,366,841,063 | \$ 10,508,997,903 | \$ 10,588,440,682 |
| Accounts Payable & Other Liabilities | 67,756,826 | 61,782,973 | 82,202,655 |
| Securities Lending Obligations | 971,485,886 | 931,440,588 | 802,741,386 |
| Total Liabilities | \$ 1,039,242,712 | \$ 993,223,561 | \$ 884,944,041 |
| Net Position Restricted for Pensions | \$ 10,327,598,351 | \$ 9,515,774,342 | \$ 9,703,496,641 |

For the fiscal year ended June 30, 2013, plan net position was approximately \$10.3 billion. This reflected an increase of approximately 8.5% or \$811,824,009 from the previous fiscal year-end. In the one-year period from June 30, 2011 to June 30, 2012, LASERS plan net position decreased approximately 1.9% or \$187,722,299. These changes were a direct result of volatility in the financial markets during those time periods.

LASERS maintains its commitment to a broadly diversified portfolio. Carefully underwritten and conservative assumptions for future expected returns have been adopted, and the investment portfolio is structured to optimize the risk-return trade-off. This is done in part by reviewing the Plan's asset allocation. LASERS continues to believe that it is well positioned to meet its long-term goals.

Condensed Comparative Statements of Changes in Plan Net Position

| | 2013 | 2012 | 2011 |
|--|--------------------|----------------------|----------------------|
| Additions | | | |
| Employer Contributions | \$ 649,029,708 | \$ 637,285,920 | \$ 558,183,107 |
| Employee Contributions | 173,357,802 | 192,795,057 | 197,825,267 |
| Net Investment Income (Loss) | 1,106,494,873 | (9,610,468) | 1,854,312,621 |
| Other Income | 33,806,894 | 32,441,258 | 14,072,770 |
| Total Additions | 1,962,689,277 | 852,911,767 | 2,624,393,765 |
| Deductions | | | |
| Retirement Benefits | 1,070,410,859 | 978,971,262 | 915,840,721 |
| Refunds and Transfers of Contributions | 61,522,162 | 43,221,742 | 41,553,896 |
| Administrative Expenses | 15,907,599 | 15,500,163 | 14,951,127 |
| Other Postemployment Benefits Expenses | 982,754 | 999,650 | 1,310,517 |
| Depreciation and Amortization Expenses | 2,041,894 | 1,941,249 | 1,919,628 |
| Total Deductions | 1,150,865,268 | 1,040,634,066 | 975,575,889 |
| Net Increase (Decrease) in Net Position | 811,824,009 | (187,722,299) | 1,648,817,876 |
| Net Position Restricted for Pensions | | | |
| Beginning of Year | 9,515,774,342 | 9,703,496,641 | 8,054,678,765 |
| End of Year | \$ 10,327,598,351 | \$ 9,515,774,342 | \$ 9,703,496,641 |

Additions to Plan Net Position

The revenues needed to finance retirement benefits are accumulated primarily through the collection of employer and employee contributions and earnings on investments. Revenue for the fiscal year ended June 30, 2013, totaled \$1,962,689,277. The revenue consisted of employer and employee contributions totaling \$822,387,510, a net investment gain of \$1,106,494,873, and other income of \$33,806,894. Volatility in the financial markets caused by new government regulations, the global recession, and the credit crisis is the primary reason for the fluctuations in additions (reductions) for the fiscal years presented. Our investment portfolio in 2013 completed the current year with a positive market rate of return on investment assets of 12.6% which ranked in the top 40 percent of all public pension plans with market values greater than \$1 billion in the Wilshire Trust Universe Comparison Service (TUCS). The net result was an increase of 11.6134% or \$1,116,105,341 in investment earnings over 2012.

At June 30, 2012, total revenues decreased by 67.5% or \$1,771,481,998 over fiscal year 2011. The decreased revenue was due primarily to net investment income decreasing 100.5% from 2011. Combined contributions increased 9.8% while other income increased 130.5%. Our investment portfolio completed the fiscal year with a positive market rate of return on investment assets of 0.2%, which ranked in the top seventy-three percent of all public pension plans with market values greater than \$1 billion in the Wilshire Trust Universe Comparison Service (TUCS).

During 2013, combined employer and employee contribution income decreased from 2012 by \$7,693,467. Employer contributions based on covered payroll increased \$11,743,788, primarily because of an increase in the composite employer percentage match from 25.9% for the year ended June 30, 2012.

to 29.4% for the year ended June 30, 2013. Member contributions decreased 10.1%, likely a result of a decrease in active members caused by the State's privatization of several agencies and the resulting reduction in workforce. Also, there has been a reduction in salary growth caused by the suspension of merit increases which was mandated by the State due to budget constraints.

Deductions from Plan Assets

LASERS was created to provide lifetime retirement, survivor, and disability benefits to qualified LASERS members. The cost of such programs includes recurring benefit payments, refund of contributions to employees who left the System, and the cost of administering LASERS.

Deductions for the fiscal year ended June 30, 2013, totaled \$1,150,865,268, an increase of approximately 10.6% over June 30, 2012. For the fiscal year ended June 30, 2012, deductions were \$1,040,634,066, an increase of about 6.7% over June 30, 2011. The increase in deductions for fiscal years ended 2013 and 2012 was due primarily to increases in benefits, refunds and transfers of member contributions paid. Benefits paid in 2013, as in 2012, increased because of the increase in the number of retirees and the average benefit resulting from the higher average salary history of the newer retirees. Refunds and transfers out of member contributions increased primarily because of the State's privatization of several agencies and the effected employees requesting distributions.

Administrative expenses increased \$407,436 or 2.6% for the fiscal year ended June 30, 2013. This is primarily attributable to increases in personnel costs and computer acquisitions. In 2012, administrative expenses increased \$549,036 or 3.7% over fiscal year ended 2011. The increase was primarily attributable to the increases in legal and actuary professional services. Details of administrative expense activity can be found in the *Schedules of Administrative Expenses* located under Supporting Schedules.

Other Postemployment Benefit (OPEB) expenses decreased \$16,896 or 1.7% for the fiscal year ended June 30, 2013 compared to June 30, 2012. In 2012, OPEB expenses decreased \$310,867 over fiscal year ended 2011. These reductions are based on adjusted calculations by the administrators of OPEB for the State.

Depreciation and amortization expense increased 5.2% for the fiscal year ended June 30, 2013, compared to a 1.1% increase for 2012 over 2011. The increase in 2013 compared to 2012 can be attributed to a reduction in depreciable assets due to disposals.

Total additions less total deductions resulted in a net increase in plan net position of \$811,824,009 in 2013, compared to a decrease of \$187,722,299 in 2012. The net result is an 8.5% increase in 2013 compared to a 1.9% decrease in plan net position restricted for pensions in 2012.

Funded Status

An actuarial valuation of assets and liabilities is performed annually. The System's funded ratio increased to 60.2% at June 30, 2013, compared to 55.9% as of June 30, 2012, and 57.6% as of June 30, 2011. The improved funding in 2013 can be attributed to a net investment experience gain, an experience gain from sources other than investment earnings, and a change in asset valuation method. The amount by which LASERS actuarial liabilities exceeded the actuarial assets was \$6.4 billion at June 30, 2013, compared to \$7.1 billion at June 30, 2012, and \$6.5 billion at June 30, 2011, thereby decreasing the unfunded actuarial accrued liability by \$25.1 million since 2011. The investment yield on the actuarial value of assets has averaged over five, ten, twenty, and thirty years 3.6%, 7.1%, 7.3%, and 8.2%,

respectively For the year ending June 30, 2013, the net realized actuarial rate of return was 14.1%, which was more than the System's assumed actuarial rate of return of 8.0% used to discount benefits. This resulted in a net investment experience gain of \$304.1 million relative to projected investment income For the fiscal years ending June 30, 2012, and 2011, the net realized actuarial rate of return was 5.2% and 5.5%, respectively

Requests for Information

This Financial Report is designed to provide a general overview of the System's finances For questions concerning any information in this report, or for additional information contact the Louisiana State Employees' Retirement System, Attention Fiscal Division, P O Box 44213, Baton Rouge, LA 70804-4213

Louisiana State Employees' Retirement System
Statements of Plan Net Position
June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------------------|--------------------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 62,005,498 | \$ 76,484,826 |
| Receivables | | |
| Employer Contributions | 42,151,780 | 65,505,501 |
| Member Contributions | 12,926,450 | 20,353,517 |
| Interest and Dividends | 25,925,453 | 24,250,211 |
| Investment Proceeds | 22,041,039 | 89,886,678 |
| Other | 3,056,461 | 2,863,860 |
| Total Receivables | <u>106,101,183</u> | <u>202,859,767</u> |
| Investments | | |
| Investments at Fair Value | | |
| Short-Term Investments - Domestic/International | 310,972,110 | 240,781,998 |
| Bonds/Fixed Income - Domestic | 941,079,186 | 994,139,221 |
| Bonds/Fixed Income - International | 313,875,045 | 451,373,593 |
| Equity Securities - Domestic | 2,929,817,566 | 2,538,708,299 |
| Equity Securities - International | 2,430,091,727 | 2,112,485,553 |
| Global Tactical Asset Allocation | 649,609,869 | 567,925,779 |
| Alternative Investments | 2,254,383,368 | 2,043,609,429 |
| Real Estate | 14,886 | 9,517 |
| Total Investments at Fair Value | <u>9,829,843,757</u> | <u>8,949,033,389</u> |
| Investments at Contract Value | | |
| Synthetic Guaranteed Investment Contract | 399,100,872 | 350,581,623 |
| Total Investments at Contract Value | <u>399,100,872</u> | <u>350,581,623</u> |
| Total Investments | <u>10,228,944,629</u> | <u>9,299,615,012</u> |
| Securities Lending Cash Collateral Held | 963,415,924 | 921,932,039 |
| Capital Assets (at cost) - Net | | |
| Property and Equipment | 3,998,553 | 4,175,769 |
| Intangible Assets | 2,375,276 | 3,930,490 |
| Total Assets | <u>11,366,841,063</u> | <u>10,508,997,903</u> |
| Liabilities | | |
| Payables | | |
| Investment Commitments | 40,181,261 | 29,691,339 |
| Trade Payables and Other Accrued Liabilities | 27,575,565 | 32,091,634 |
| Total Payables | <u>67,756,826</u> | <u>61,782,973</u> |
| Securities Lending Obligations | 971,485,886 | 931,440,588 |
| Total Liabilities | <u>1,039,242,712</u> | <u>993,223,561</u> |
| Net Position Restricted for Pensions | <u>\$ 10,327,598,351</u> | <u>\$ 9,515,774,342</u> |

The accompanying notes are an integral part of these statements

Louisiana State Employees' Retirement System

Statements of Changes in Plan Net Position

For the Period Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|--|--------------------------|-------------------------|
| Additions | | |
| Contributions | | |
| Employer Contributions | \$ 649,029,708 | \$ 637,285,920 |
| Employee Contributions | 173,357,802 | 192,795,057 |
| Total Contributions | 822,387,510 | 830,080,977 |
| Investment Income | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 740,570,895 | (258,501,244) |
| Interest & Dividends | 198,688,033 | 199,152,948 |
| Alternative Investment Income | 216,648,178 | 99,800,694 |
| Less Alternative Investment Expenses | (33,397,818) | (34,592,332) |
| Net Appreciation Securities Lending | 3,926,502 | 1,946,336 |
| Securities Lending Income | 1,878,714 | 1,127,193 |
| Other Income | 3,068,276 | 3,705,667 |
| Less Investment Expense Other than Alternative Investments and Securities Lending | (24,887,907) | (22,249,730) |
| Net Investment Income (Loss) | 1,106,494,873 | (9,610,468) |
| Other Income | 33,806,894 | 32,441,258 |
| Total Additions | 1,962,689,277 | 852,911,767 |
| Deductions | | |
| Retirement Benefits | 1,070,410,859 | 978,971,262 |
| Refunds and Transfers of Member Contributions | 61,522,162 | 43,221,742 |
| Administrative Expenses | 15,907,599 | 15,500,163 |
| Other Postemployment Benefits Expenses | 982,754 | 999,650 |
| Depreciation and Amortization Expenses | 2,041,894 | 1,941,249 |
| Total Deductions | 1,150,865,268 | 1,040,634,066 |
| Net Increase (Decrease) in Net Position | 811,824,009 | (187,722,299) |
| Net Position Restricted for Pensions | | |
| Beginning of Period | 9,515,774,342 | 9,703,496,641 |
| End of Period | <u>\$ 10,327,598,351</u> | <u>\$ 9,515,774,342</u> |

The accompanying notes are an integral part of these statements

Notes to Financial Statements

A. Plan Description

1. General Organization

The Louisiana State Employees' Retirement System (LASERS or the System) is the administrator of a single-employer defined benefit pension plan, and is a component unit of the State of Louisiana included in the State's Comprehensive Annual Financial Report (CAFR) as a pension trust fund. The System was established by Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S. 11:401).

In accordance with Louisiana Revised Statutes, the System is subject to certain elements of oversight:

- The House and Senate Committees on Retirement review administration, benefits, investments, and funding of the public retirement systems.
- The operating budget of the System is subject to budgetary review and approval by the Joint Legislative Committee on the Budget.
- The Legislative Auditor is responsible for the procurement of audits for the public retirement systems, and is authorized to contract with a licensed Certified Public Accountant (CPA) for each audit.
- Actuarial calculations and results are reviewed by the Public Retirement Systems' Actuarial Committee (PRSAC) annually.

2. Plan Membership

The System is one of several public retirement systems in Louisiana. Each system has specific membership requirements established by legislation, with LASERS established for state officers, employees, and their beneficiaries. Other public employers report members who retained membership in LASERS upon transfer to other public systems or as provided by specific legislation. A summary of government employers and members participating in LASERS at June 30, 2013, and 2012, are as follows:

| Type of Employer | 2013 | | 2012 | |
|-------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | Active Employers | Active Members | Active Employers | Active Members |
| State Agencies | 209 | 43,842 | 216 | 52,090 |
| Other Public Employers | 146 | 269 | 146 | 262 |
| Total | 355 | 44,111 | 362 | 52,352 |

| Type of Active Members | 2013 | 2012 |
|-------------------------------|---------------------|---------------------|
| | Member Count | Member Count |
| Active After DROP | 1,825 | 2,136 |
| Alcohol and Tobacco Control* | 19 | 28 |
| Appellate Law Clerks* | 172 | 187 |
| Bridge Police* | 7 | 11 |
| Corrections* | 2,949 | 3,566 |
| Hazardous Duty | 1,596 | 1,258 |
| Judges | 320 | 320 |
| Legislators* | 12 | 12 |
| Peace Officers* | 79 | 84 |
| Regular State Employees | 36,942 | 44,546 |
| Wildlife Agents* | 190 | 204 |
| Total Active Members | 44,111 | 52,352 |

* Plans closed to new members effective January 1, 2011

At June 30, 2013, and 2012, membership consisted of

| | 2013 | 2012 |
|------------------------------|----------------|----------------|
| Active Members | 44,111 | 52,352 |
| Regular Retirees* | 37,145 | 34,513 |
| Disability Retirees* | 2,554 | 2,544 |
| Survivors | 5,726 | 5,665 |
| Vested & Reciprocals | 4,162 | 2,222 |
| Inactive Members Due Refunds | 52,385 | 50,590 |
| DROP Participants | 2,092 | 2,577 |
| Total Membership | 148,175 | 150,463 |

* For actuarial purposes "Disability Retirees" includes members who have reached normal retirement eligibility requirements and converted to Regular Retirement and are therefore counted by LASERS as "Regular Retirees"

3. Funded Status and Funding Progress

Contributions to the System are determined through annual actuarial valuations. Administration of LASERS is financed through contributions to the plan from members, the State of Louisiana, and cumulative investment earnings. The schedule below reflects the funded status and progress of the System for the fiscal year ended June 30, 2013. Dollars are presented in thousands.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 6/30/2012 | \$9,026,416 | \$16,157,898 | \$7,131,482 | 55.9% | \$2,341,703 | 304.5% |
| 6/30/2013 | \$9,749,323 | \$16,182,195 | \$6,432,872 | 60.2% | \$1,951,988 | 329.6% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations, and new estimates are made about the future. The required Schedules of Funding Progress located in Required Supplementary Information following the *Notes to the Financial Statements* presents multi-year trend information regarding whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information on the actuarial methods and assumptions used as of the June 30, 2013, actuarial valuation follows:

| | |
|------------------------------|--|
| Valuation Date | June 30, 2013 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | <p>Amortized according to La. R.S. 11:102 and 11:102.1</p> <p>For unfunded accrued liability resulting from benefit increases occurring on or after June 30, 2007: Level dollar payment over 10 years.</p> <p>All unfunded accrued liability changes occurring prior to 2009, except benefit increases in 2007 and 2008, were re-amortized into two schedules as of June 30, 2010. Payment schedules increase in a prescribed variable manner until 2018, then will either increase until paid off in 2029, or remain level until paid off in 2040, depending upon the schedule, as required by statute.</p> <p>For unfunded accrued liability changes occurring 2009 or later: Level dollar payment over 30 years, from date of occurrence.</p> |

| | | | | | | | | | | | | | | | | | | | |
|--|---|--------------------|--------------------|--------------------|---------|------|-------|--------|------|------|-------------|------|-------|----------------|------|-------|----------|------|-------|
| Amortization Approach | Closed | | | | | | | | | | | | | | | | | | |
| Remaining Amortization Period | Weighted average of 19 years | | | | | | | | | | | | | | | | | | |
| Asset Valuation Period | Utilizes smoothing of gains and losses relative to the assumed rate of return over a five year period | | | | | | | | | | | | | | | | | | |
| Actuarial Assumptions: | | | | | | | | | | | | | | | | | | | |
| Investment Rate of Return | 8.25% per annum, net expenses is assumed prior to July 1, 2012. Beginning July 1, 2012 the rate is 8.0% | | | | | | | | | | | | | | | | | | |
| Inflation Rate | 3.0% per annum | | | | | | | | | | | | | | | | | | |
| Mortality | Mortality rates were projected based on the RP-2000 Mortality Table | | | | | | | | | | | | | | | | | | |
| Termination, Disability, and Retirement | Termination, disability, and retirement assumptions were projected based on a five-year (2003-2008) experience study of the System's members | | | | | | | | | | | | | | | | | | |
| Salary Increases | <div>Salary increases were projected based on a 2003-2008 experience study of the System's members. The salary increase ranges for specific types of members are:</div> <table><tr><td>Member Type</td><td>Lower Range</td><td>Upper Range</td></tr><tr><td>Regular</td><td>4.3%</td><td>14.0%</td></tr><tr><td>Judges</td><td>3.0%</td><td>5.5%</td></tr><tr><td>Corrections</td><td>4.0%</td><td>15.0%</td></tr><tr><td>Hazardous Duty</td><td>4.0%</td><td>15.0%</td></tr><tr><td>Wildlife</td><td>6.0%</td><td>17.0%</td></tr></table> | Member Type | Lower Range | Upper Range | Regular | 4.3% | 14.0% | Judges | 3.0% | 5.5% | Corrections | 4.0% | 15.0% | Hazardous Duty | 4.0% | 15.0% | Wildlife | 6.0% | 17.0% |
| Member Type | Lower Range | Upper Range | | | | | | | | | | | | | | | | | |
| Regular | 4.3% | 14.0% | | | | | | | | | | | | | | | | | |
| Judges | 3.0% | 5.5% | | | | | | | | | | | | | | | | | |
| Corrections | 4.0% | 15.0% | | | | | | | | | | | | | | | | | |
| Hazardous Duty | 4.0% | 15.0% | | | | | | | | | | | | | | | | | |
| Wildlife | 6.0% | 17.0% | | | | | | | | | | | | | | | | | |
| Cost-of-Living Adjustments | Liability for raises already granted is included in the retiree reserve | | | | | | | | | | | | | | | | | | |

4. Legally Required Reserves

Provisions for reserves, in which all assets of the System are to be credited according to their purpose, are established in La. R.S. 11:531, et seq. Use of the term "reserve" by the System indicates that a portion of the fund balances is legally restricted for a specific future use. The nature and purpose of these reserves are explained below:

A) Expense Account Reserve

The Expense Account Reserve provides for general and administrative expenses of the System and those expenses not funded through other specific legislative appropriations. Funding consists of transfers from the retirement funds and is made as needed. Any excess funds at year-end are closed out to the Employers' Accumulation Account.

B) Employees' Savings Reserve

The Employees' Savings Reserve is credited with contributions made by members of the System. When a member terminates his service, or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Employees' Savings Account Reserve to the Retiree's Annuity Reserve. When a member retires, the amount of his accumulated contributions is transferred to the Retiree's Annuity Reserve to provide part of the benefits.

C) Employers' Accumulation Account

The Employers' Accumulation Account consists of contributions paid by employers, interest paid by the agency on purchases of state service, military service, and educational leave and training, interest, dividends, profits and other income earned on investments, and any other income not covered by other accounts. This reserve account is charged annually with an amount, determined by the actuary, to be transferred to the Retiree's Annuity Reserve to fund retirement benefits and cost of living increases for existing retirees.

D) Retiree's Annuity Reserve

The Retiree's Annuity Reserve is credited with the employees' accumulated contributions upon retirement or payment of survivor's benefits, amount determined by actuary from the Employers' Accumulated Account for payment of pensions, and cost of living increases for retirees. The Retiree's Annuity Reserve shall be charged with retirements paid to retirees and beneficiaries, survivor's benefits paid to eligible survivors, cost of living adjustments for retirees, beneficiaries, and survivor's benefits recipients in addition to refunds paid to survivors or the estates of members whereby monthly benefits do not equal total accumulated contributions.

E) Deferred Retirement Option and Initial Benefit Option (DROP/IBO) Reserve

The Deferred Retirement Option and Initial Benefit Option Reserve consist of the reserves for all members who select the Deferred Retirement Option or Initial Benefit Option upon retirement. For DROP, upon eligibility for retirement a member may elect to deposit in this reserve an amount equal to the member's monthly benefit if he had retired. A member can only participate in DROP for three years and upon termination may receive his benefits in a lump sum payment or in a manner approved by the Board. For IBO, upon retirement a member elects to take a lump sum benefit payment of up to 36 months times the maximum benefit up front and subsequently receive a reduced monthly benefit.

F) Optional Retirement Plan (ORP) Reserve

The ORP Reserve consists of reserves for certain active unclassified members who otherwise would be eligible to become members in the Defined Benefit Plan who chose to participate in the defined contribution Optional Retirement Plan. The member is credited with contributions made by the employee and the normal employer matching contributions for

services rendered. When a member terminates his service, or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. Also, when a member retires, his benefits are paid from this reserve.

G) Experience Account Reserve

The Experience Account Reserve accumulates 50% of the excess investment gain relative to the actuarial valuation rate of 8.0% after such excess return exceeds \$100,000,000. The account is used to fund permanent benefit increases for retirees. The benefit increase granted must be funded at 100% of the actuarial cost. The account balance is restricted to the reserve for two permanent benefit increases.

| Reserves | 2013 | | 2012 | |
|---------------------------------|--------------------------|----------------|--------------------------|----------------|
| | Balance | Percent Funded | Balance | Percent Funded |
| Expense Account Reserve | \$ - | 100% | \$ - | 100% |
| Employees' Savings Reserve | 1,577,976,578 | 100% | 1,649,713,130 | 100% |
| Employer's Accumulation Reserve | 3,026,411,880 | 0% | 3,741,143,272 | 0% |
| Retirees' Annuity Reserve | 10,633,738,577 | 73% | 9,892,297,150 | 71% |
| DROP/IBO Reserve | 938,035,164 | 100% | 868,143,454 | 100% |
| ORP Reserve | 6,032,442 | 100% | 6,600,560 | 100% |
| Experience Account Reserve | 187,178,787 | 100% | - | 100% |
| Total Reserves | \$ 16,369,373,428 | | \$ 16,157,897,566 | |

5. Eligibility Requirements

All state employees, except those specifically excluded by statute, become members of the System's Defined Benefit Plan (DBP) as a condition of employment, unless they elect to continue as a contributing member in any other retirement system for which they remain eligible for membership. Certain elected officials and officials appointed by the Governor may, at their option, become members of LASERS. Also, qualifying unclassified state employees may have made an irrevocable election to participate in the Optional Retirement Plan (ORP) between July 12, 1999 and December 7, 2007, when the plan closed. All plans are considered one pension plan for financial reporting purposes. All assets accumulated for the payment of benefits may legally be used to pay benefits to any plan members or beneficiaries.

6. Retirement

The age and years of creditable service required in order for a member to retire with full benefits are established by statute, and vary depending on the member's hire date, employer, and job classification. The substantial majority of members may retire with full benefits at any age upon completing 30 years of creditable service and at age 60 upon completing ten years of creditable service. Additionally, members may choose to retire with 20 years of service at any age, with an

actuarially reduced benefit. The basic annual retirement benefit for members is equal to 2.5% to 3.5% of average compensation multiplied by the number of years of creditable service.

Average compensation is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment for members employed prior to July 1, 2006. For members hired July 1, 2006 or later, average compensation is based on the member's average annual earned compensation for the highest 60 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or a certain specified dollar amount of actuarially determined monetary limits, which vary depending upon the member's age at retirement. Judges, court officers, and certain elected officials receive an additional annual retirement benefit equal to 1.0% of average compensation multiplied by the number of years of creditable service in their respective capacity. As an alternative to the basic retirement benefits, a member may elect to receive their retirement benefits under any one of six different options providing for reduced retirement benefits payable throughout their life, with certain benefits being paid to their designated beneficiary after their death.

Act 992 of the 2010 Louisiana Regular Legislative Session, changed the benefit structure for LASERS members hired on or after January 1, 2011. This resulted in three new plans: regular, hazardous duty, and judges. The new regular plan includes regular members and those members who were formerly eligible to participate in specialty plans, excluding hazardous duty and judges. Regular members and judges are eligible to retire at age 60 after five years of creditable service and, may also retire at any age, with a reduced benefit, after 20 years of creditable service. Hazardous duty members are eligible to retire with twelve years of creditable service at age 55, 25 years of creditable service at any age or with a reduced benefit after 20 years of creditable service. Average compensation will be based on the member's average annual earned compensation for the highest 60 consecutive months of employment for all three new plans. Members in the regular plan will receive a 2.5% accrual rate, hazardous duty plan a 3.33% accrual rate, and judges a 3.5% accrual rate. The extra 1.0% accrual rate for each year of service for court officers, the governor, lieutenant governor, legislators, House clerk, sergeants at arms, or Senate secretary, employed after January 1, 2011, was eliminated by Act 992. Specialty plan and regular members, hired prior to January 1, 2011, who are hazardous duty employees have the option to transition to the new hazardous duty plan.

A member leaving employment before attaining minimum retirement age, but after completing certain minimum service requirements, becomes eligible for a benefit provided the member lives to the minimum service retirement age, and does not withdraw their accumulated contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is ten years of service.

7. Deferred Benefits

The State Legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. For members who entered DROP prior to January 1, 2004, interest at a rate of one-half percent less than the System's realized return on its portfolio (not to be less than zero) will be credited to the retiree after participation ends. At that

time, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP account. Members who enter DROP on or after January 1, 2004, are required to participate in LASERS Self-Directed Plan (SDP) which is administered by a third-party provider. The SDP allows DROP participants to choose from a menu of investment options for the allocation of their DROP balances. Participants may diversify their investments by choosing from an approved list of mutual funds with different holdings, management styles, and risk factors.

Members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. For members who selected the IBO option prior to January 1, 2004, such amount may be withdrawn or remain in the IBO account earning interest at a rate of one-half percent less than the System's realized return on its portfolio (not to be less than zero). Those members who select the IBO on or after January 1, 2004, are required to enter the SDP as described above.

8. Disability Benefits

All members with ten or more years of credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age.

Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the Board of Trustees.

For injuries sustained in the line of duty, hazardous duty personnel in the Hazardous Duty Services Plan will receive a disability benefit equal to 75% of final average compensation.

9. Survivor's Benefits

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the deceased. The deceased member who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18, or age 23 if the child remains a full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child.

10. Permanent Benefit Increases/Cost-of-Living Adjustments

As fully described in Title 11 of the Louisiana Revised Statutes, the System allows for the payment of permanent benefit increases, also known as cost-of-living adjustments, that are funded through investment earnings when recommended by the Board of Trustees and approved by the State Legislature.

11. Optional Retirement Plan

In 1999, an Optional Retirement Plan (ORP) was established as a defined contribution component of LASERS for certain unclassified employees who otherwise would have been eligible to become members of the defined benefit plan. The ORP provides portability of assets and full and

immediate vesting of all contributions submitted on behalf of members. The ORP is administered by a third-party provider with oversight from LASERS Board of Trustees. Monthly employer and employee contributions are invested as directed by the member to provide the member with future retirement benefits. The amount of these benefits is entirely dependent upon the total contributions and investment returns accumulated during the member's working lifetime. ORP balances are held by the provider in each participant's name. These balances are included in LASERS total investments on the Statements of Plan Net Position. The ORP was closed to new members on December 7, 2007. However, members in the ORP as of December 31, 2007 were granted the option by Act 718 of the 2012 Louisiana Regular Legislative Session to regain membership in the defined benefit plan. At June 30, 2013, and 2012, membership consisted of

| | <u>2013</u> | <u>2012</u> |
|-----------------------------|--------------|--------------|
| Number of Members | 83 | 90 |
| Fair Value of Assets | \$ 6,032,442 | \$ 6,600,560 |

B. Summary of Significant Accounting Policies

1. Basis of Accounting

LASERS financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. Investment purchases and sales are recorded as of their trade date. State General Fund appropriations are recognized in the period when they are appropriated. Employer and member contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Administrative expenses are funded through contributions to the plan from members, the State of Louisiana, and cumulative investment earnings, and are subject to budgetary control of the Board of Trustees and the Joint Legislative Committee on the Budget. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

2. Securities Lending

The System records collateral received under its securities lending agreement where the System has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. The security lending cash collateral pools are reported at the market value of the underlying securities. Security lending income and expenses are reported as investment income and expenses in the accompanying financial statements. The Statements of Net Position do not include detailed holdings of securities lending collateral by investment classification.

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from plan net position during the reporting period. Actual results could differ from those estimates. The retirement system utilizes various investment instruments, which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and those changes could materially affect the amounts reported in the Statements of Plan Net Position.

4. Method Used to Value Investments

As required by GASB 25, investments are reported at fair value. Short-term investments are reported at market value when published prices are available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rate. All derivative financial instruments are reported at fair value in the Statements of Plan Net Position with valuation changes recognized in income. Gains and losses are reported in the Statements of Changes in Plan Net Position as net appreciation (depreciation) in fair value of investments during the period the instruments are held, and when the instruments are sold or expire. The nature and use of derivative instruments is discussed in *Note E Cash and Investments* (9). The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) has been determined by management based on the individual investment's capital account balance, reported at fair value, at the closest available reporting period, adjusted for subsequent contributions, distributions, and management fees. Because of the inherent uncertainties in estimating fair values, it is at least reasonably possible that the estimates will change in the near term. Investments that do not have an established market are reported at estimated fair value. Unrealized gains and losses are included as investment earnings in the Statements of Changes in Plan Net Position. Synthetic Guaranteed Investment Contracts are carried at contract value as required by GASB 53.

5. Property and Equipment

Property and equipment and computer software are reported at historical cost. Depreciation is computed using the straight-line method based upon useful lives of 40 years for building, 3 to 15 years for equipment and furniture, and 7 years for computer software. The capitalization thresholds of property and equipment were:

- Computer Software Developed or Modified Internally (reported as Intangible Assets) \$1,000,000
- Movable Property and Equipment \$5,000

LASERS is a 50% co-owner of the Louisiana Retirement Systems building and related land with Teachers' Retirement System of Louisiana. LASERS interest in the building and land is reflected in the following schedules:

Changes in Property and Equipment
For Period Ending June 30, 2013

| | <u>June 30, 2012</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>June 30, 2013</u> |
|---|----------------------|-----------------------|---------------------------------|----------------------|
| Asset Class (at Cost) | | | | |
| Land | \$ 858,390 | \$ - | \$ - | \$ 858,390 |
| Building | 5,936,927 | 8,358 | - | 5,945,285 |
| Furniture, Equipment, and Vehicles | 3,147,077 | 301,106 | (679,451) | 2,768,732 |
| Intangibles | 10,886,502 | - | - | 10,886,502 |
| Total Property and Equipment | 20,828,896 | 309,464 | (679,451) | 20,458,909 |
| Accumulated Depreciation | | | | |
| Building | (3,171,993) | (191,892) | - | (3,363,885) |
| Furniture, Equipment, and Vehicles | (2,594,632) | (294,788) | 679,451 | (2,209,969) |
| Intangibles | (6,956,012) | (1,555,214) | - | (8,511,226) |
| Total Accumulated Depreciation | (12,722,637) | (2,041,894) | 679,451 | (14,085,080) |
| Total Property and Equipment - Net | \$ 8,106,259 | \$ (1,732,430) | \$ - | \$ 6,373,829 |

Changes in Property and Equipment
For Period Ending June 30, 2012

| | <u>June 30, 2011</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>June 30, 2012</u> |
|---|----------------------|-----------------------|---------------------------------|----------------------|
| Asset Class (at Cost) | | | | |
| Land | \$ 858,390 | \$ - | \$ - | \$ 858,390 |
| Building | 5,880,983 | 55,944 | - | 5,936,927 |
| Furniture, Equipment, and Vehicles | 3,027,624 | 119,453 | - | 3,147,077 |
| Intangibles | 10,886,502 | - | - | 10,886,502 |
| Total Property and Equipment | 20,653,499 | 175,397 | - | 20,828,896 |
| Accumulated Depreciation | | | | |
| Building | (2,978,235) | (193,758) | - | (3,171,993) |
| Furniture, Equipment, and Vehicles | (2,402,356) | (192,276) | - | (2,594,632) |
| Intangibles | (5,400,797) | (1,555,215) | - | (6,956,012) |
| Total Accumulated Depreciation | (10,781,388) | (1,941,249) | - | (12,722,637) |
| Total Property and Equipment - Net | \$ 9,872,111 | \$ (1,765,852) | \$ - | \$ 8,106,259 |

6. Accumulated Leave

The employees of the System accumulate unlimited amounts of annual and sick leave at varying rates as established by state regulations. Upon resignation or retirement, unused annual leave of up to 300 hours is paid to an employee at the employee's current rate of pay. Upon retirement, unused annual leave in excess of 300 hours and sick leave are credited at the current pay rate as earned service in computing retirement benefits. The liability for accrued annual leave of up to 300 hours is included in other liabilities in the Statements of Plan Net Position.

C. Contributions

1. Member Contributions

Member contribution rates for the System are established by La. R.S. 11:62. Member contributions are deducted from a member's salary and remitted to the System by participating employers. The rates in effect during the years ended June 30, 2013, and 2012, for the various types of members are as follows:

| Type of Member | Percent of Earned Compensation |
|------------------------------|--------------------------------------|
| Alcohol and Tobacco Control* | 9.0% |
| Appellate Law Clerks* | 7.5% - 8.0% |
| Bridge Police* | 8.5% |
| Corrections* | 9.0% |
| Hazardous Duty | 9.5% |
| Judges | 11.5% - 13.0% |
| Legislators* | 9.5% - 11.5% |
| Peace Officers* | 9.0% |
| Regular State Employees | 7.5% - 8.0% |
| Wildlife Agents* | 9.5% |

*Plans closed to new members effective January 1, 2011

A member's claim is established for member contributions less amounts transferred to reserves for retirement and amounts refunded to terminated members. If a member leaves covered employment or dies before any benefits become payable on their behalf, the accumulated contributions may be refunded to the member or their designated beneficiary. Similarly, accumulated contributions in excess of any benefits paid to members or their survivors are refunded to the member's beneficiaries or their estates upon cessation of any survivor's benefits.

2. Employer Contributions

The employer contribution rate is established annually under La R S 11 101-11 104 by the Public Retirement Systems' Actuarial Committee (PRSAC), taking into consideration the recommendation of the System's Actuary. Legislation passed in 2010, effective for the fiscal year beginning July 1, 2011, required that the employer contribution rate be determined separately for the various plans within LASERS. Each plan pays a separate actuarially-determined employer contribution rate. However, all assets of LASERS are used for the payment of benefits for all classes of members, regardless of their plan membership. Rates for the years ended June 30, 2013, and 2012, are as follows:

| Plan | Employer Contribution Rates | |
|---------------------------------|-----------------------------|--------------|
| | 2013 | 2012 |
| Alcohol and Tobacco Control | 30.1% | 26.1% |
| Appellate Law Clerks | 29.1% | 25.6% |
| Bridge Police | 28.1% | 21.4% |
| Corrections - Primary | 34.0% | 30.9% |
| Corrections - Secondary | 30.8% | 26.4% |
| Hazardous Duty Plan | 28.0% | 23.1% |
| Judges | 34.8% | 31.8% |
| Judges (Elected after 1/1/2011) | 28.2% | 20.2% |
| Legislators | 37.8% | 34.3% |
| Peace Officers | 32.8% | 28.4% |
| Regular State Employees | 29.1% | 25.6% |
| Wildlife Agents | 36.9% | 35.5% |
| Aggregate Rate | 29.4% | 25.9% |

D. Deposits and Investment Risk Disclosures

1. Deposit and Investment Risk Disclosures

The information presented on the following pages includes disclosures of custodial, interest rate, credit, and foreign currency risks in accordance with GASB 40 and GASB 53 and is designed to inform financial statement users about investment risks that could affect the System's ability to meet its obligations. The tables presented classify investments by risk type, while the financial statements present investments by asset class, thus, the totals shown on the tables may not be comparable to the amounts shown for the individual asset classes on the financial statements.

2. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of bank failure, the System's deposits may not be returned. The System does not have a formal deposit policy for custodial credit risk. All US bank balances at year-end were insured or collateralized by the pledge of government securities held by the agents in the entity's name. LASERS had time deposits and certificates of deposits in the securities lending cash collateral pool that were exposed to custodial credit risk of \$227.0 million and \$181.9 million as of June 30, 2013 and June 30, 2012. LASERS had uninsured cash deposits in non-US banks of \$7.5 million and \$12.6 million for the periods ended June 30, 2013, and June 30, 2012, respectively. These deposits were used for investments pending settlement.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investments, or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either a) the counterparty or b) the counterparty's trust department or agent but not in the government's name. LASERS had no custodial credit risk for investments for the years ending June 30, 2013 and June 30, 2012.

3. Concentration of Credit Risk

Concentration of credit risk is the "risk of loss attributed to the magnitude of investments in a single issuer." The risk occurs "when investments are concentrated in any one issuer that represents 5% or more of plan net assets." Investments issued or explicitly guaranteed by the US Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The System has no investments of any single organization (other than those issued or guaranteed by the US Government) that represent 5% or more of the System's net plan assets, nor does the System hold more than 5% of any corporation's stock.

4. Credit Risk

Credit risk is the risk that a borrower will be unable to meet its obligation. The overall average quality of each core fixed income portfolio shall be rated A- or higher by Standard and Poor's. Non-rated issues or issues below investment grade (below BBB-) may be purchased up to a maximum of 15% of each core fixed income portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high-yield fixed income portfolios. The average duration shall not differ from the passive benchmark's duration by more than two years.

In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The System's exposure to credit risk as of June 30, 2013, and 2012, is as follows:

| Rating | Fair Value 2013 | Percent 2013 | Fair Value 2012 | Percent 2012 |
|---------------------------|-------------------------|-----------------|-------------------------|-----------------|
| AAA | \$ 30,824,959 | 1.2% | \$ 80,260,282 | 3.1% |
| A-1+ | 173,365,229 | 6.8% | 176,041,653 | 6.7% |
| A-1 | 310,148,253 | 12.4% | 367,139,031 | 14.1% |
| AA+ | 209,724,926 | 8.4% | 255,148,252 | 9.8% |
| AA | 6,297,305 | 0.2% | 6,939,118 | 0.3% |
| AA- | 167,465,486 | 6.6% | 152,801,744 | 5.9% |
| A+ | 142,607,178 | 5.6% | 50,850,062 | 1.9% |
| A | 50,546,927 | 2.0% | 80,758,619 | 3.1% |
| A- | 86,120,614 | 3.4% | 57,509,598 | 2.2% |
| BBB+ | 38,051,448 | 1.5% | 21,881,116 | 0.8% |
| BBB | 45,523,617 | 1.8% | 36,471,773 | 1.4% |
| BBB- | 52,346,025 | 2.1% | 41,028,645 | 1.6% |
| BB+ | 38,392,010 | 1.5% | 31,877,845 | 1.2% |
| BB | 58,329,610 | 2.3% | 50,978,801 | 2.0% |
| BB- | 71,934,308 | 2.8% | 64,869,282 | 2.5% |
| B+ | 73,735,309 | 2.9% | 70,475,372 | 2.7% |
| B | 78,772,588 | 3.1% | 64,146,181 | 2.5% |
| B- | 75,307,151 | 3.0% | 78,122,017 | 3.0% |
| CCC+ | 60,377,279 | 2.4% | 39,711,363 | 1.5% |
| CCC | 57,589,143 | 2.2% | 78,836,812 | 3.0% |
| CCC- | 4,683,855 | 0.2% | 2,632,201 | 0.1% |
| CC | 17,377,051 | 0.7% | 29,794,268 | 1.1% |
| C | 299,250 | 0.0% | - | 0.0% |
| D | 104,354,596 | 4.1% | 71,636,571 | 2.7% |
| Non-rated | 575,168,148 | 22.8% | 698,316,245 | 26.8% |
| Total Fixed Income | \$ 2,529,342,265 | 100.0% | \$ 2,608,226,851 | 100.0% |

5. Interest Rate Risk

Interest rate risk is the risk from changes in interest rates adversely affecting the fair value of an investment. LASERS has no formal interest rate risk policy. LASERS, as expressed in its Investment Policy, expects its fixed income managers to approximate the portfolio's duration (a measure of a debt investment's exposure to fair value changes arising from interest rates) to within two years of its respective benchmark. Investments with fair values that are highly sensitive to interest rate changes may contain terms that increase the sensitivity of their fair values.

As of June 30, 2013, and 2012, the System had the following domestic and foreign debt investments and maturities:

| Type | Fair Value 2013 | Investment Maturities (in Years) | | | |
|---|-------------------------|----------------------------------|-----------------------|-----------------------|-----------------------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | Greater Than 10 |
| U.S. Government Obligations | \$ 29,534,959 | \$ 13,676 | \$ 17,544 | \$ 4,919,989 | \$ 24,583,750 |
| U.S. Agency Obligations | 73,530,989 | 15,129,745 | 1,658,804 | 963,412 | 55,779,028 |
| Mortgages | 230,892,120 | - | - | 11,608,057 | 219,284,063 |
| Corporate Bonds | 710,895,824 | 71,030,276 | 225,799,402 | 325,758,731 | 88,307,415 |
| International Bonds | 566,297,190 | 245,510,794 | 141,535,123 | 144,410,541 | 34,840,732 |
| Commercial Paper and Other Short-term Investments | 450,126,695 | 450,126,695 | - | - | - |
| International Commercial Paper and Other Short-term Investments | 463,105,208 | 463,105,208 | - | - | - |
| Bond Mutual Funds | 4,959,280 | 4,959,280 | - | - | - |
| Total Debt Investments | \$ 2,529,342,265 | \$ 1,249,875,674 | \$ 369,010,873 | \$ 487,660,730 | \$ 422,794,988 |

| Type | Fair Value 2012 | Investment Maturities (in Years) | | | |
|---|-------------------------|----------------------------------|-----------------------|-----------------------|-----------------------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | Greater Than 10 |
| U.S. Government Obligations | \$ 205,751,233 | \$ 93,167,996 | \$ 36,498,418 | \$ 41,018,518 | \$ 35,066,301 |
| U.S. Agency Obligations | 74,005,621 | - | - | 4,710,269 | 69,295,352 |
| Mortgages | 229,284,121 | 4,951,987 | 378,000 | 10,536,050 | 213,418,084 |
| Corporate Bonds | 602,976,427 | 15,331,031 | 228,619,339 | 290,227,008 | 68,799,049 |
| International Bonds | 650,129,055 | 183,014,772 | 256,264,672 | 144,150,486 | 66,699,125 |
| Commercial Paper and Other Short-term Investments | 237,441,564 | 237,441,564 | - | - | - |
| International Commercial Paper and Other Short-term Investments | 604,418,710 | 604,418,710 | - | - | - |
| Bond Mutual Funds | 4,220,120 | 4,220,120 | - | - | - |
| Total Debt Investments | \$ 2,608,226,851 | \$ 1,142,546,180 | \$ 521,760,429 | \$ 490,642,331 | \$ 453,277,911 |

6. Foreign Currency Risk

Foreign currency risk is the potential risk for loss due to changes in exchange rates. Cash held by the manager may be in U.S. dollar or foreign currencies of the manager's choice. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions. Currency contracts may be utilized to either hedge the portfolio's currency risk exposure or in the settlement of securities transactions.

Foreign investments denominated in U.S. currency such as American Depositary Receipts (ADRs) and Yankee bonds do not carry foreign currency risk, therefore, are not included in the tables below. LASERS portfolio contained several commingled funds subject to foreign currency risk with aggregate fair values of \$896.2 million and \$818.0 million for the years ended June 30, 2013 and June 30, 2012, respectively. LASERS Investment Guidelines, some of which are noted in *Note E Cash and Investments*, are designed to mitigate risk.

The fair value of LASERS securities including derivative instruments held in a foreign currency at June 30, 2013, and 2012, is as follows:

| Currency | Global Bonds | Global Stock | Cash/Other | Private Equity | Currency Contracts | Fair Value 2013 |
|------------------------|-----------------------|-------------------------|----------------------|----------------------|------------------------|-------------------------|
| Australian Dollar | \$ - | \$ 95,607,617 | \$ 7,878 | \$ - | \$ (10,384,026) | \$ 85,231,469 |
| Brazilian Real | 21,979,354 | | 4,265 | | 160,110 | 22,143,729 |
| British Pound Sterling | | 300,879,768 | 880,201 | | | 301,759,969 |
| Canadian Dollar | | 106,565,379 | 235,650 | | 74,877 | 106,875,906 |
| Chilean Peso | 238,959 | | | | | 238,959 |
| Colombian Peso | 7,242,914 | | | | (532,473) | 6,710,441 |
| Danish Krone | | 15,199,855 | 196,992 | | | 15,396,847 |
| Euro | 8,945,799 | 396,954,139 | 16,197,127 | 63,596,309 | (261,536) | 485,431,838 |
| Hong Kong Dollar | | 39,654,323 | 290,833 | | | 39,945,156 |
| Hungarian Forint | 7,331,837 | | | | | 7,331,837 |
| Indonesian Rupiah | 14,282,669 | | | | | 14,282,669 |
| Israeli Shekel | | 4,733,248 | 131,388 | | | 4,864,636 |
| Japanese Yen | | 266,962,407 | 2,524,300 | | (574,169) | 268,912,538 |
| Malaysian Ringgit | 15,848,144 | | | | | 15,848,144 |
| Mexican Peso | 29,526,028 | | 206,262 | | | 29,732,290 |
| New Taiwan Dollar | | 303,407 | 9,856 | | | 313,263 |
| Turkish Lira | 17,266,646 | | | | 1,458 | 17,268,104 |
| New Zealand Dollar | | 4,862,536 | 74,202 | | (2,470,503) | 2,466,235 |
| Nigerian Naira | 616,348 | | 2,002,909 | | | 2,619,257 |
| Norwegian Krone | | 8,032,381 | 272,124 | | | 8,304,505 |
| Peruvian Sol | 79,980 | | | | 849,250 | 929,230 |
| Philippines Peso | 1,689,893 | | | | | 1,689,893 |
| Polish Zloty | 15,142,383 | | | | | 15,142,383 |
| Romanian Leu | | | | | 913,891 | 913,891 |
| Russina Ruble | 16,342,196 | | | | | 16,342,196 |
| Singapore Dollar | | 48,037,430 | 244,288 | | | 48,281,718 |
| South African Rand | 17,715,857 | | 960 | | | 17,716,817 |
| Swedish Krona | | 31,611,364 | 157,147 | | | 31,768,511 |
| Swiss Franc | | 109,126,038 | 191,368 | | | 109,317,406 |
| Thailand Baht | 10,702,941 | | | | | 10,702,941 |
| Total | \$ 184,951,948 | \$ 1,428,529,892 | \$ 23,627,750 | \$ 63,596,309 | \$ (12,223,121) | \$ 1,688,482,778 |

| Currency | Global Bonds | Global Stock | Cash/Other | Private Equity | Currency Contracts | Fair Value 2012 |
|------------------------|-----------------------|-------------------------|----------------------|----------------------|------------------------|-------------------------|
| Australian Dollar | \$ - | \$ 88,441,017 | \$ 181,077 | \$ - | \$ (11,458,275) | \$ 77,163,819 |
| Brazilian Real | | | 4,668 | | | 4,668 |
| British Pound Sterling | | 264,229,443 | 869,025 | | 23,936,942 | 289,035,410 |
| Canadian Dollar | | 103,993,477 | 347,701 | | | 104,341,178 |
| Danish Krone | | 12,877,138 | 190,079 | | | 13,067,217 |
| Euro | 97,171,936 | 325,467,147 | 78,345,226 | 48,776,865 | (23,452,453) | 526,308,721 |
| Hong Kong Dollar | | 29,323,138 | 237,252 | | | 29,560,390 |
| Israeli Shekel | | 4,571,992 | 133,144 | | | 4,705,136 |
| Japanese Yen | 172,719,545 | 220,597,452 | 2,788,063 | | (545,431) | 395,559,629 |
| Malaysian Ringgit | | | 13,476 | | | 13,476 |
| Mexican Peso | 28,237,014 | | 891,727 | | | 29,128,741 |
| New Taiwan Dollar | | 186,522 | 9,885 | | | 196,407 |
| New Zealand Dollar | | 5,044,352 | 81,906 | | (3,041,368) | 2,084,890 |
| Norwegian Krone | | 7,628,085 | 676,255 | | | 8,304,340 |
| Polish Zloty | 34,012,366 | | | | | 34,012,366 |
| Singapore Dollar | | 45,427,616 | 719,091 | | (101,525) | 46,045,182 |
| South African Rand | | | 4 | | | 4 |
| Swedish Krona | | 26,201,514 | 997,653 | | | 27,199,167 |
| Swiss Franc | | 80,640,887 | 1,740,405 | | | 82,381,292 |
| Thailand Baht | | | 1 | | | 1 |
| Total | \$ 332,140,861 | \$ 1,214,629,780 | \$ 88,226,638 | \$ 48,776,865 | \$ (14,662,110) | \$ 1,669,112,034 |

E. Cash and Investments

1. Cash and Cash Equivalents

Cash and cash equivalents include cash deposited in banks. Cash is insured by the Federal Deposit Insurance Corporation up to \$250,000, and cash equivalents are collateralized by the pledge of government securities held by the agents in the entity's name.

2. Short-Term Investments

Short-term reserves may be held in U.S. dollar or global denominated investment vehicles available through the System's custodian. These funds may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by issues of the U.S. Treasury or any agency of the United States Government. Repurchase agreement transactions as of June 30, 2013, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields for the repurchase agreements were 25 basis points with maturity dates through July 1, 2013. LASERS had repurchase agreements with fair values of \$61,001,405 as of June 30, 2013 and \$45,100,117 as of June 30, 2012. Excess cash may also be invested in the negotiable certificates of deposit, global time deposits, global currency, or other short-term investment vehicles designated by the Board.

3. Investments

Louisiana state law (La. R.S. 11:261-269) provides for the fiduciary and investment responsibilities of LASERS. La. R.S. 11:263 states that the prudent man rule shall apply to all investments of LASERS. This law specifically requires management of LASERS to exercise the judgment and care under the circumstances prevailing that a prudent institutional investor would use in the conduct of an enterprise of a like character with like aims.

4. Domestic Equity

Domestic equity purchases are limited to publicly traded common stocks. Exceptions shall be approved by the Board in advance. No single holding shall account for more than 6% of the allowable equity portion of the portfolio at market value, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger.

LASERS domestic equity portfolios are expected to be fully invested. No single holding in LASERS portfolio shall account for more than 5% of the outstanding common stock of any one corporation. No more than 10% of a manager's domestic equity portfolio may consist of cash or cash equivalents. Additionally, no single holding across all actively managed portfolios of an investment management firm shall account for more than 15% of the outstanding common stock of any one corporation.

The purchase of stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager shall deem appropriate, up to 10% of the portfolio at market value. Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes as long as they meet the equity guidelines listed above.

5. International Equity

Short-term reserves may be held in U S dollar-denominated, local currency securities, or investment vehicles available through the System's custodian. Managers may purchase or sell currency on a spot basis to accommodate security settlements. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of security transactions.

LASERS international equity portfolios are expected to be fully invested. No more than 10% of a manager's international equity portfolio may consist of cash or cash equivalents. Equity securities should be issued by non-US corporations, although the manager has latitude to hold US securities provided that such investment is consistent with attainment of the portfolio's investment objectives, and does not exceed 10% of the portfolio's market value. American Depositary Receipts (ADRs) do not count toward this 10% limitation.

The number of issues held and their geographic or industry distribution shall be left to the investment manager provided that equity holdings in any one company (including common stock and convertible securities) do not exceed 6% of the market value of the manager's portion of LASERS portfolio. Additionally, bonds of the companies in question would be included in LASERS exposure calculation if held in the manager's portfolio.

Managers with established international equity mandates may invest up to 10% of their portfolio(s) in the emerging markets, as defined by the MSCI EM Index. Managers with an emerging markets equity mandate are expected to invest in the emerging (non-established) markets, subject to the guidelines listed above.

6. Domestic Core Fixed Income

Domestic core fixed income investments may include U S Government and Federal Agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities, and senior secured debt and other instruments deemed prudent by the investment managers. No more than 6% of the market value of LASERS domestic core fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U S Government and Federal Agencies.

The overall average quality of each fixed income portfolio shall be rated A- or higher. Issues not rated may be purchased provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of A- or higher. Non-rated issues or issues below investment grade (below BBB-) may be purchased up to a maximum of 15% of the portfolio.

The diversification of securities by maturity, quality, sector, coupon, and geography is the responsibility of the manager. Active bond management is encouraged, as deemed appropriate by the investment managers. The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark's duration by more than two years.

Investments in mortgage-backed securities shall have the characteristics of fixed income securities, and be responsive to changes in domestic interest rate changes, as well as other factors that affect the credit markets and mortgage investments. The investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments.

for the Plan, and shall adhere to the specific investment, security, diversification limits, and administrative guidelines established in the investment management agreement(s)

High-yield fixed income managers may invest up to 20% of their portfolios in non-U S fixed income securities. They shall perform careful credit analysis to mitigate losses from defaults. Investments should be diversified across sector, industry, sub-industry, and market to mitigate losses. No more than 6% of market value of the System's high yield assets may be invested in the debt securities of any one issuer.

7. Global Fixed Income

The global bond portfolio may hold no more than 30% of its assets, at market value, in the debt securities of any single foreign government or non-U S government entity. No single non-government debt security shall constitute more than 6% of the global bond portfolio, at market value. Securities issued by AAA rated supranational organizations (such as the World Bank) shall be considered to be government equivalents.

Short-term reserves may be held in U S dollar-denominated or local currency securities or investment vehicles available through LASERS custodian.

Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than leverage portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolio's currency risk exposure or in the settlement of securities transactions. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager.

The overall average quality of each global fixed income portfolio shall be A- or higher. Non-rated issues may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of A- or higher. Issues below investment grade (below BBB-) and/or mortgage backed securities may be purchased up to a maximum of 15% of the portfolio. The average duration (interest rate sensitivity) of a global fixed income portfolio shall not differ from the passive benchmark by more than two years.

8. Emerging Market Debt

The emerging markets debt portfolio may hold no more than 15 times the passive benchmark weight, at market value, in the debt securities of any single sovereign entity. The portfolio may hold up to 15% in securities not issued by benchmark countries. The portfolio may hold up to a combined allocation of 20% in non-benchmark inflation-linked bonds and corporate debt securities. Investments should be diversified across sovereign issuers and markets to mitigate losses from defaults.

Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than leverage portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolio's currency risk exposure or in the settlement of securities transactions. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager.

The overall average quality of each portfolio shall be BBB- or higher. Non-rated issues may be purchased provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of BBB- or higher. The modified duration (interest rate sensitivity) of an emerging markets debt (local currency) portfolio shall not differ from the passive benchmark by more than three years.

9. Derivatives

During the fiscal years ended 2013 and 2012, the System invested in collateralized mortgage obligations (forms of mortgage-backed securities), foreign exchange currency contracts, futures, options, warrants, rights, and a Synthetic Guaranteed Investment Contract (SGIC). The System reviews market value of all securities on a monthly basis. Derivative securities may be held in part to maximize yields and in part to hedge against a rise in interest rates. The fair value of rights and warrants are determined based upon quoted market prices. For the years ending June 30, 2013, and June 30, 2012, the derivative instruments held by the System were considered investments and not hedges for accounting purposes. The term hedging, as it is used elsewhere in the notes to these financial statements, denotes an economic activity and not an accounting method. Investments in limited partnerships and commingled funds may include derivatives. Interest rate risk, credit rate risk, and foreign currency risk associated with derivatives are included on their respective tables in *Note D Deposits and Investment Risk Disclosures*.

- a. **Collateralized mortgage obligations (CMOs)** are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with that CMOs established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates than others that can be significantly sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reductions in interest payments cause a decline in cash flows and, thus, a decline in market value of the CMO security. Rising interest rates may cause an increase in interest payments, thus an increase in the value of the security.
- b. **Synthetic Guaranteed Investment Contract (SGIC)** is an investment for tax-qualified, defined contribution pension plans consisting of two parts: an asset owned directly by the plan trust and a wrap contract providing book value protection for participant withdrawals prior to maturity. LASERS maintains a fully benefit-responsive synthetic guaranteed investment contract option for members of the Optional Retirement Plan and the Self-Directed Plan. The investment objective of the SGIC is to protect members from loss of their original investment and to provide a competitive interest rate. LASERS Stable Value Fund had fair values of \$402.8 million and \$366.4 million for the fiscal years ended June 30, 2013, and 2012, respectively. Fair values of this fund exceeded the values protected by the wrap contract by \$3.7 million and \$15.8 million for the fiscal years ended June 30, 2013, and 2012, respectively. The counterparty rating for the wrap contract was AA.
- c. **Futures** contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled.

daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are used primarily as a tool to increase or decrease market exposure to various asset classes.

- d A **currency forward** is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forwards are usually transacted in the over-the-counter market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation. They are entered into with the foreign exchange department of a bank located in a major money market. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the System records the unrealized translation gain or loss. Forward commitments are not standardized, and carry counterparty risk. Counterparty risk ratings from forwards for the years ended June 30, 2013, and June 30, 2012, ranged from ratings of AA- to A-.
- e **Option contracts** provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option.

The following tables represent the fair value of all open currency, futures, and options contracts at June 30, 2013, and 2012.

| Change in Fair Value 2013 | | | Fair Value at June 30, 2013 | | |
|----------------------------|------------------|-------------|-----------------------------|--------------|---------------|
| Derivative Type | Classification | Gain/(Loss) | Classification | Amount | Notional |
| Foreign Exchange Contracts | Net Appreciation | \$ 487,679 | Investment Proceeds | \$ 1,599,320 | \$ 28,289,176 |
| Commodity Futures | Net Depreciation | (4,489,378) | Alternative Investments | (5,015,261) | 126,471,374 |
| Option | Net Appreciation | 1,712,500 | Alternative Investments | 3,062,500 | N/A |

| Change in Fair Value 2012 | | | Fair Value at June 30, 2012 | | |
|----------------------------|------------------|--------------|-----------------------------|--------------|---------------|
| Derivative Type | Classification | Gain/(Loss) | Classification | Amount | Notional |
| Foreign Exchange Contracts | Net Appreciation | \$ 1,556,231 | Investment Proceeds | \$ 1,111,641 | \$ 75,747,343 |
| Commodity Futures | Net Depreciation | (525,881) | Alternative Investments | (525,881) | 130,921,552 |

10. Real Estate

LASERS has no current allocation to Real Estate. There remains one real estate limited partnership that is in the process of liquidation.

11. Alternative Investments

Investments in alternatives include, but are not limited to, private equity, absolute return (hedge funds), and real assets. Investment strategies may include buyouts or corporate restructuring, venture capital, secondary investments, distressed securities, mezzanine instruments, energy and natural resources, and any other special situation.

LASERS endeavors to systematically commit additional funds to this asset class over time as it becomes under-represented relative to the LASERS target asset allocation. LASERS attempts to commit up to 200% of its target weighting to private equity investments to help ensure that the funded portion of the investments approximates the target allocation.

The Board of LASERS recognizes that alternative assets are potentially more risky than other investments of the System. As such, extra care is taken in evaluating and fully understanding all aspects on an alternative investment opportunity.

No more than 25% of the alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a fund-of-funds. Preference will be given to those funds where the general partner is contributing at least 1% of the total fund. All investments must have a mechanism for exit.

LASERS had the following unfunded commitments as of June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------|--------------------------------|--------------------------------|
| Unfunded Commitments | | |
| Denominated in US Dollars | \$ 842,085,687 | \$ 715,318,547 |
| Denominated in Euros | 57,531,427 | 67,560,455 |
| Total Unfunded | <u>899,617,114</u> | <u>782,879,002</u> |
| Funded Commitments | | |
| Denominated in US Dollars | 1,801,315,101 | 1,638,082,241 |
| Denominated in Euros | 59,401,152 | 46,280,286 |
| Total Funded | <u>1,860,716,253</u> | <u>1,684,362,527</u> |
| Total Commitments | <u><u>\$ 2,760,333,367</u></u> | <u><u>\$ 2,467,241,529</u></u> |

The dollar amounts representing Euros are subject to fluctuations based on changes in exchange rates.

12. Global Tactical Asset Allocation

Global Tactical Asset Allocation (GTAA) is a top-down investment strategy that attempts to exploit short-term mis-pricings among a global set of assets. The strategy focuses on general movements in the market rather than on performance of individual securities. This portfolio is managed in a commingled format. As such, LASERS investment guidelines do not apply. The commingled fund's guidelines are broadly similar to LASERS and shall take precedent.

F. Securities Lending Program

State Statutes and the Board's policies permit the system to make short-term collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. LASERS has contracted with its custodian, BNY Mellon, to lend domestic and international equity and debt securities. The majority of security loans can be terminated on demand by either LASERS or the borrower. Collateral in the form of cash or other securities is required for 102% of the fair value of domestic or sovereign debt, and 105% of the fair value of international securities excluding sovereign debt loaned. Since the majority of the loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral.

Due to disruptions in the credit markets beginning in the fall of 2008, prices of several securities experienced declines. At June 30, 2012, LASERS had an approximate \$11.9 million payable to BNY Mellon due to losses on Lehman Bonds. During fiscal year 2013, \$7.0 million in security lending income has been applied bringing the balance owed BNY Mellon to \$4.9 million. At June 30, 2013 and June 30, 2012, amounts payable to BNY Mellon were reported as trade payables and other

accrued liabilities. The unrealized loss in the cash collateral pools decreased from an unrealized loss of \$9.5 million at June 30, 2012, to an unrealized loss of \$8.1 million at June 30, 2013.

LASERS is not permitted to pledge or sell collateral securities unless a borrower defaults. The System did not impose any restrictions during the fiscal year on the amount of the loans that BNY Mellon made on its behalf, and BNY Mellon indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year.

On June 30, 2013, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The market value of securities on loan totaled \$944,428,403 and \$918,035,116 for the years ended June 30, 2013, and 2012, respectively.

G. Other Postemployment Benefits (OPEB)

1. Plan Description

The Office of Group Benefits (OGB) is an agent multiple-employer postemployment healthcare plan that covers retired employees of the State, as well as school boards and various other non-state employers. OGB provides health and life insurance benefits to eligible retirees, their spouses, and their dependents. La. R.S. 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the state legislature. OGB does not issue a publicly available financial report of the OPEB Plan, however, it is included in the Louisiana Comprehensive Annual Financial Report (CAFR). A copy of the CAFR may be obtained on the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov/osrap.

2. Funding Policy

La. R.S. 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the State Legislature. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums.

Summary of Plan Provisions:

Employees hired before January 1, 2002 pay approximately 25% of the cost of coverage (except single retirees under age 65 pay approximately 25% of the active employee cost). Total annual per capita medical contribution rates for 2012-2013 are shown in the following tables.

Employees hired on or after January 1, 2002 pay a percentage of the total contribution rate upon retirement based on the following schedule

| <u>Service</u> | <u>State Contribution Percentage</u> | <u>Retiree Contribution Percentage</u> |
|----------------|--|--|
| Under 10 years | 19% | 81% |
| 10-14 years | 38% | 62% |
| 15-19 years | 56% | 44% |
| 20+ years | 75% | 25% |

Total monthly per capita premium rates as of January 1, 2013 are as follows

| | <u>PPO</u> | <u>HMO</u> | <u>CDHP w/ HSA</u> | <u>MHHMO</u> |
|---|-------------|-------------|------------------------|--------------|
| <u>Active</u> | | | | |
| Single | \$ 575 92 | \$ 544 12 | \$ 447 08 | \$ 536 28 |
| With Spouse | \$ 1,223 28 | \$ 1,155 56 | \$ 949 56 | \$ 1,122 20 |
| With Children | \$ 702 40 | \$ 663 56 | \$ 545 44 | \$ 650 96 |
| Family | \$ 1,290 16 | \$ 1,218 68 | \$ 1,001 40 | \$ 1,182 64 |
| <u>Retired No Medicare & Re-employed Retiree</u> | | | | |
| Single | \$ 1,071 48 | \$ 1,015 48 | N/A | \$ 984 56 |
| With Spouse | \$ 1,892 04 | \$ 1,793 08 | N/A | \$ 1,727 36 |
| With Children | \$ 1,193 48 | \$ 1,131 20 | N/A | \$ 1,095 08 |
| Family | \$ 1,882 84 | \$ 1,784 48 | N/A | \$ 1,719 04 |
| <u>Retired with 1 Medicare</u> | | | | |
| Single | \$ 348 44 | \$ 335 96 | N/A | \$ 330.36 |
| With Spouse | \$ 1,287 40 | \$ 1,227 80 | N/A | \$ 1,180 04 |
| With Children | \$ 603 08 | \$ 577 92 | N/A | \$ 560 76 |
| Family | \$ 1,715 32 | \$ 1,634 28 | N/A | \$ 1,567 36 |
| <u>Retired with 2 Medicare</u> | | | | |
| With Spouse | \$ 626 32 | \$ 602 20 | N/A | \$ 581 64 |
| Family | \$ 775 48 | \$ 745 60 | N/A | \$ 716 64 |

Medicare Supplement Rate

All members who retire on or after July 1, 1997 must have Medicare Parts A and B in order to qualify for the reduced premium rates. The monthly premium rates for the Medicare supplement plans for retirees are as follows:

| | 2013 | | 2012 | |
|-----------------------|--------------|------------|--------------|------------|
| | Retired With | | Retired With | |
| | 1 Medicare | 2 Medicare | 1 Medicare | 2 Medicare |
| Humana PPO | \$ - | \$ - | \$ 150 | \$ 300 |
| Humana HMO | \$ - | \$ - | \$ 156 | \$ 312 |
| Peoples Health HMO | \$ 234 | \$ 468 | \$ 167 | \$ 334 |
| Vantage HMO | \$ 184 | \$ 369 | \$ 279 | \$ 558 |
| United Healthcare PPO | \$ - | \$ - | \$ 214 | \$ 428 |

Life Insurance Premiums

Effective January 1, 2013, retirees pay \$0.52 for each \$1,000 of personal life insurance and \$0.98 for each \$1,000 of spousal life insurance. Prior to that date, retirees paid \$0.50 for each \$1,000 of personal life insurance and \$0.88 for each \$1,000 of spouse life insurance.

3. Annual OPEB Cost and Net OPEB Obligation

The State is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 14.8% of annual covered payroll. At June 30, 2013, and 2012, annual OPEB costs and net OPEB obligations were:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Annual Required Contribution | \$ 962,600 | \$ 961,900 |
| Interest on OPEB Obligation | 275,656 | 250,503 |
| Adjustment to Annual Required Contribution | (255,502) | (212,753) |
| Annual OPEB Cost (Expense) | 982,754 | 999,650 |
| Contributions Made | (350,871) | (378,650) |
| Increase in Net OPEB Obligation | 631,883 | 621,000 |
| Net OPEB Obligation Beginning of Year | 6,883,570 | 6,262,570 |
| Net OPEB Obligation End of Year | <u>\$ 7,515,453</u> | <u>\$ 6,883,570</u> |

For fiscal year 2013, LASERS net OPEB obligation of \$7,515,453 is included in Trade Payables and Other Accrued Liabilities in the Statements of Plan Net Position and annual OPEB cost (expense) of \$982,754 is separately reported in the Statements of Changes in Plan Net Position. The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012, and 2011, are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|-----------------------------|---|--------------------------------|
| 6/30/2011 | \$ 1,310,517 | 23.9% | \$ 6,262,570 |
| 6/30/2012 | \$ 999,650 | 37.9% | \$ 6,883,570 |
| 6/30/2013 | \$ 982,754 | 35.7% | \$ 7,515,453 |

Funded Status and Funding Progress: The funding status of the plan as of June 30, 2013, was as follows

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 7/1/2011 | \$ - | \$ 11,869,800 | \$ 11,869,800 | 0.0% | \$ 6,693,100 | 177.3% |
| 7/1/2012 | \$ - | \$ 12,659,600 | \$ 12,659,600 | 0.0% | \$ 6,507,600 | 194.5% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedules of Funding Progress, presented as required supplementary information following the *Notes to the Financial Statements*, present the current year's funding status, and presents multi-year trend information that will show whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits. Fiscal year 2008 was the implementation year of OPEB for LASERS.

4. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members), and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, a projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), an inflation rate of 3.0%, and an annual healthcare cost trend rate of 8.0% for pre-Medicare and 6.0% for Medicare-eligible participants initially, reduced by decrements to an ultimate rate of 4.5%. The valuation utilized participant data supplied by OGB, the State Payroll System, and the various state retirement systems. Projected claim costs were determined by combining trended claims data, actual capitation rates, and actual vendor fees. LASERS unfunded actuarial accrued liability is

being amortized using both a level dollar amount and a level percent of pay over an open amortization period of 30 years, the maximum amortization period allowed by GASB 45

H. Subsequent Events

The State of Louisiana is scheduled to complete the privatization of several state agencies by September 2013 which is expected to reduce the state workforce by approximately 3,000 employees. The financial statements and actuarial valuation do not reflect the impact of the scheduled reduction in workforce.

Required Supplementary Information

Schedules of Funding Progress for LASERS

For the Six Years Ended June 30, 2013

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio ¹ (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|------------------------------------|---------------------------------------|---------------------------|---|
| 6/30/2008 | \$ 9,167,170 | \$ 13,562,214 | \$ 4,395,044 | 67.6% | \$ 2,436,956 | 180.3% |
| 6/30/2009 | \$ 8,499,662 | \$ 13,986,847 | \$ 5,487,185 | 60.8% | \$ 2,562,576 | 214.1% |
| 6/30/2010 | \$ 8,512,403 | \$ 14,764,015 | \$ 6,251,612 | 57.7% | \$ 2,546,457 | 245.5% |
| 6/30/2011 | \$ 8,763,101 | \$ 15,221,055 | \$ 6,457,954 | 57.6% | \$ 2,408,840 | 268.1% |
| 6/30/2012 | \$ 9,026,416 | \$ 16,157,898 | \$ 7,131,482 | 55.9% | \$ 2,341,703 | 304.5% |
| 6/30/2013 | \$ 9,749,323 | \$ 16,182,195 | \$ 6,432,872 | 60.2% | \$ 1,951,988 | 329.6% |

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by \$24,297,075 from June 30, 2012, to June 30, 2013. There was an investment gain of \$304,147,279, and an additional net investment gain of \$170,210,294 due to a change in the asset valuation. There was an experience gain from sources other than investments of \$446,200,859. A portion of the increase in assets due to investment earnings was allocated to the Experience Account rather than to reduce the unfunded actuarial accrued liability.

Schedules of Employer Contributions

For the Six Years Ended June 30, 2013

| Date | Actuarial Required Contribution | Actual Contribution | Percent Contributed |
|------|---------------------------------------|------------------------|------------------------|
| 2008 | \$ 456,741,202 | \$ 526,484,759 | 115.3% |
| 2009 | \$ 492,402,961 | \$ 487,353,901 | 99.0% |
| 2010 | \$ 585,268,922 | \$ 491,237,641 | 83.9% |
| 2011 | \$ 678,123,319 | \$ 558,183,107 | 82.3% |
| 2012 | \$ 713,971,279 | \$ 637,285,920 | 89.3% |
| 2013 | \$ 752,809,646 | \$ 649,029,708 | 86.2% |

Analysis of the percentage contributed over a period of years will give a relative indication of the funding progress for the liabilities of the Louisiana State Employees' Retirement System.

¹For the years ended June 30, 2008, through June 30, 2009, the funded ratio referenced takes into account the initial unfunded accrued liability account (IUAL) and the Employer Credit Account which is not the same funded ratio used in determining the projected employer contribution rate.

Schedules of Funding Progress for OGB OPEB Trust

For the Six Years Ended June 30, 2013

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 7/1/2007 | \$ - | \$ 19,690,300 | \$ 19,690,300 | 0.0% | \$ 5,822,128 | 338.2% |
| 7/1/2008 | \$ - | \$ 23,055,800 | \$ 23,055,800 | 0.0% | \$ 6,633,000 | 347.6% |
| 7/1/2009 | \$ - | \$ 18,281,800 | \$ 18,281,800 | 0.0% | \$ 6,919,500 | 264.2% |
| 7/1/2010 | \$ - | \$ 15,919,500 | \$ 15,919,500 | 0.0% | \$ 6,862,200 | 232.0% |
| 7/1/2011 | \$ - | \$ 11,869,800 | \$ 11,869,800 | 0.0% | \$ 6,693,100 | 177.3% |
| 7/1/2012 | \$ - | \$ 12,659,600 | \$ 12,659,600 | 0.0% | \$ 6,507,600 | 194.5% |

Supporting Schedules

Schedules of Administrative Expenses

For the Years Ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------------------|---------------------------------|
| Administrative Expenses: | | |
| Salaries and Related Benefits | \$ 12,054,907 | \$ 11,648,027 |
| Travel Expenses | 146,852 | 126,993 |
| Operating Services | 3,121,904 | 3,093,364 |
| Professional Services | 482,290 | 579,349 |
| Acquisitions | <u>101,646</u> | <u>52,430</u> |
| Total Administrative Expenses | <u>\$ 15,907,599</u> | <u>\$ 15,500,163</u> |

Schedules of Investment Expenses

For the Years Ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|-----------------------------|-----------------------------|
| Investment Activities Expenses: | | |
| Alternative Investment Expenses | | |
| Alternative Manager Fees | \$ 31,523,780 | \$ 28,805,893 |
| Profit Sharing Fees | 1,874,038 | 5,786,439 |
| Total Alternative Investment Expenses | <u>\$ 33,397,818</u> | <u>\$ 34,592,332</u> |
| Investment Management Expenses | | |
| Investment Manager Fees | \$ 23,565,210 | \$ 20,948,026 |
| Profit Sharing Fees | 56,353 | 61,931 |
| Investment Consultant Fees | 634,167 | 609,167 |
| Research and Data Services | 314,088 | 305,577 |
| Investment Performance Management | 176,228 | 176,028 |
| Global Custodian Fees | 141,861 | 149,001 |
| Total Investment Management Expenses | <u>\$ 24,887,907</u> | <u>\$ 22,249,730</u> |
| Total Investment Expenses | <u>\$ 58,285,725</u> | <u>\$ 56,842,062</u> |

Schedules of Board Compensation

For the Years Ended June 30, 2013 and 2012

| Board of Trustees | 2013 | | 2012 | |
|-----------------------------|--------------------|------------------|--------------------|------------------|
| | Number of Meetings | Amount | Number of Meetings | Amount |
| Thomas Bickham ¹ | 11 | \$ - | 13 | \$ - |
| Connie Carlton | 23 | 1,725 | 25 | 1,875 |
| Charles Castille | 0 | - | 8 | 600 |
| Beverly Hodges ² | 24 | 1,800 | 20 | 1,500 |
| William Kleinpeter | 19 | 1,425 | 6 | 450 |
| Janice Lansing | 21 | 1,575 | 20 | 1,500 |
| Barbara McManus | 22 | 1,650 | 21 | 1,575 |
| Susan Pappan ¹ | 0 | - | 7 | - |
| Lori Pierce ¹ | 9 | - | 21 | - |
| Sheryl Ranatza ¹ | 0 | - | 10 | 450 |
| Kathy Singleton | 22 | 1,650 | 20 | 1,500 |
| Shannon Templet | 21 | 1,575 | 10 | 750 |
| Total Compensation | | \$ 11,400 | | \$ 10,200 |

¹ Board member chose not to receive per diem for all or part of their term

² Board member chose to have per diem paid directly to their employer agency

Schedules of Professional/Consultant Fees

For the Years Ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|--------------------------|--------------------------|
| Accounting and Auditing | | |
| Duplantier, Hrapmann, Hogan & Maher, LLP | \$ 46,088 | \$ 37,940 |
| Actuary | | |
| Foster & Foster, Inc | 82,200 | |
| Hall Actuarial Associates | 37,000 | 37,000 |
| S J Actuarial Associates | 85,640 | 183,565 |
| Legal Fees | | |
| Avant & Falcon | 1,400 | 7,963 |
| Klausner, Kaufman, Jensen, & Levinson | 7,188 | 57,489 |
| Lowenstein Sandler | 40,992 | 51,671 |
| Roedel Parsons Koch Balhoff & McCollister | 10,688 | 7,945 |
| Tarcza & Associates, LLC | 62,967 | 32,478 |
| Disability Program | | |
| Physician and Other Reviews | 106,633 | 139,524 |
| Other Professional Services | | |
| Election Service Corporation | - | 20,262 |
| Firefly Digital, Inc | - | 2,700 |
| Other Non-Consultant Professionals | 1,494 | 812 |
| Professional Service/Consultant Fees | <u><u>\$ 482,290</u></u> | <u><u>\$ 579,349</u></u> |

LASERS

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